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STATE OF MONTANA
LEGISLATIVE FISCAL ANALYST

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1987

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANT

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LEGISLATIVE FISCAL ANALYST

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

September 1987

DEPUTY LEGISLATIVE AUDITORS

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Office of Legislative
Fiscal Analyst for the two fiscal years ending June 30, 1987.

The audit was conducted by James J. Wosepka, CPA under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

LEGISLATIVE FINANCE COMMITTEE

1985-1987

SENATORS

Jack Haffey, Vice-Chairman
Delwyn Gage
Mat Himsl
George McCallum
Pat Regan
Fred VanValkenburg

REPRESENTATIVES

Calvin Winslow, Chairman
Francis Bardanouve
Gene Donaldson
Ron Miller
Ray L. Peck
Ted Schye

Judy Rippingale, Legislative Fiscal Analyst

1987-1989

SENATORS

Fred VanValkenburg
Mat Himsl, - Vice-Chairman
Pete Story
Jack Haffey
George McCallum
Pat Regan

REPRESENTATIVES

Jack Mercer
Francis Bardanouve
Harold Poulsen
Ron Miller
Ray Peck, - Chairman
Calvin Winslow

Judy Rippingale, Legislative Fiscal Analyst

INTRODUCTION

I performed a financial-compliance audit of the Legislative Fiscal Analyst for the two fiscal years ended June 30, 1987. The objectives of the audit were to: (1) determine if the financial schedules present fairly the office's results of operations for the two fiscal years ended June 30, 1987; (2) determine if the office complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the office.

I thank the staff of the Legislative Fiscal Analyst for their cooperation and assistance during my audit.

BACKGROUND

The Office of the Legislative Fiscal Analyst was created as part of the Legislative Finance Act, which became law in 1975. The office is under the supervision and control of the Legislative Finance Committee.

The Fiscal Analyst is responsible for the following:

- 1) Analyzing fiscal records of state government, furnishing information bearing upon the financial matters of the state.
- 2) Estimating revenue from existing and proposed taxes.
- 3) Analyzing the executive budget and budget amendments.
- 4) Reporting to and assisting legislative committees and individual members on financial information.

INTERNAL CONTROL

I have examined the financial schedules of the Legislative Fiscal Analyst for the two fiscal years ended June 30, 1987. I issued my opinion dated September 18, 1987 on these schedules. As part of my examination, I made a study and evaluation of the Legislative Fiscal Analyst control system. My study evaluated the system as required by generally accepted governmental auditing standards for financial compliance audits. I classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

My study included the control categories listed above. I applied alternative audit tests to property, plant, and equipment as I determined it was more efficient to expand substantive testing for this area. Through my study, I determined the nature, timing, and extent of my auditing procedures. I did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Legislative Fiscal Analyst is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of controls used by the Legislative Fiscal Analyst.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon acceptance by the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The Legislative Fiscal Analyst was last audited for the fiscal years ending June 30, 1985 and 1984, under contract with the Office of the Legislative Auditor. No audit recommendations were made.

STATE COMPLIANCE

I reviewed compliance with state laws that could have a material impact on the financial schedules of the Legislative Fiscal Analyst. In my opinion, the Legislative Fiscal Analyst complied with the state laws and regulations tested. Nothing came to my attention that causes me to believe untested compliance issues are not in accordance with applicable laws and regulations.

AUDITOR'S REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 1097
41 CENTRAL AVENUE SOUTH
BEACH, NORTH DAKOTA 58621
(701) 872-4321

P.O. BOX 602
10 EAST MONTANA AVENUE
BAKER, MONTANA 59313
(406) 778-2816

The Legislative Audit Committee
of the Montana State Legislature:

I have examined the financial schedules of the Legislative Fiscal Analyst for each of the two fiscal years ended June 30, 1987 and 1986 as listed in the table of contents. My examination was made in accordance with generally accepted auditing standards, and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions, and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the Fiscal Analyst's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In my opinion, the schedules referred to above present fairly the results of operations and the changes in fund balance of the Fiscal Analyst for the two fiscal years ended June 30, 1987, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.



Baker, Montana
September 18, 1987

OFFICE OF LEGISLATIVE FISCAL ANALYST
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>General Fund</u>
FUND BALANCE: July 1, 1985	\$ <u>-0-</u>
ADDITIONS	
Support from State of Montana	<u>739,653</u>
Total Additions	<u>739,653</u>
REDUCTIONS	
Budgeted Expenditures & Transfers Out	739,439
Prior Year Expenditure Adjustments	<u>214</u>
Total Reductions	<u>739,653</u>
FUND BALANCE: June 30, 1986	\$ <u><u>-0-</u></u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.

OFFICE OF LEGISLATIVE FISCAL ANALYST
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

General Fund

FUND BALANCE: July 1, 1986	\$ <u>-0-</u>
ADDITIONS	
Nonbudgeted Revenue & Transfers In	8,440
Prior Year Expenditure Adjustments	6,683
Support From State of Montana	<u>730,293</u>
Total Additions	<u>745,416</u>
REDUCTIONS	
Budgeted Expenditures & Transfers Out	736,976
Nonbudgeted Expenditures & Transfers Out	<u>8,440</u>
Total Reductions	<u>745,416</u>
FUND BALANCE: June 30, 1987	\$ <u>-0-</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.

OFFICE OF LEGISLATIVE FISCAL ANALYST
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Legislative Fiscal Analyst</u>
PERSONAL SERVICES	
Salaries	\$442,883
Hourly Wages	4,912
Employee Benefits	<u>82,806</u>
Total	<u>530,601</u>
OPERATING EXPENSES	
Contracted Services	53,545
Supplies & Materials	21,364
Communications	10,820
Travel	11,451
Rent	9,424
Repair & Maintenance	10,867
Other Expenses	<u>9,720</u>
Total	<u>127,191</u>
EQUIPMENT AND INTANGIBLE ASSETS	
Equipment	<u>81,647</u>
Total	<u>81,647</u>
TOTAL PROGRAM EXPENDITURES	<u>\$739,439</u>
GENERAL FUND	
Budgeted	\$774,504
Actual	<u>739,439</u>
Unspent Budget Authority	<u>\$ 35,065</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.

OFFICE OF LEGISLATIVE FISCAL ANALYST
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Legislative Fiscal Analyst</u>
PERSONAL SERVICES	
Salaries	\$476,350
Hourly Wages	5,422
Employee Benefits	<u>90,343</u>
Total	<u>572,115</u>
OPERATING EXPENSES	
Contracted Services	81,846
Supplies & Materials	9,151
Communications	9,225
Travel	6,546
Rent	9,962
Repair & Maintenance	4,857
Other Expenses	<u>1,778</u>
Total	<u>123,365</u>
EQUIPMENT AND INTANGIBLE ASSETS	
Equipment	<u>40,091</u>
Total	<u>40,091</u>
DEBT SERVICE	
Installment Purchases	<u>1,407</u>
Total	<u>1,407</u>
TOTAL PROGRAM EXPENDITURES	<u>\$736,978</u>
GENERAL FUND	
Budgeted	\$756,451
Actual	<u>736,978</u>
Unspent Budget Authority	<u>\$ 19,475</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 9 through 11.

OFFICE OF THE
LEGISLATIVE FISCAL ANALYST

NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1987 AND 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Legislative Fiscal Analyst utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Legislative Fiscal Analyst. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1987 and 1986, the office had a liability for compensated absences of \$78,524 and \$70,801 respectively.

LEGISLATIVE FISCAL ANALYST

NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1987 AND 1986

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contributions to the plan are shown below:

	<u>Fiscal Year</u> <u>1986-87</u>	<u>Fiscal Year</u> <u>1985-86</u>
PERS	\$30,520	\$28,422

Defined benefits under the plan are based on years of service and final average of the participants. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plan were determined actuarially sound as reported by the system's actuary at June 30, 1986.

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. GENERAL FIXED ASSETS

The office records assets on the State's Property and Accountability Management System. A schedule of the change in the fixed asset balance from July 1, 1985 to June 30, 1987 follows:

	<u>Balance</u> <u>July 1, 1985</u>	<u>Net</u> <u>Additions</u>	<u>Balance</u> <u>June 30, 1987</u>
Equipment	\$68,831	\$90,168	\$158,999

5. PURCHASE CONTRACT

The Legislative Fiscal Analyst entered into an Installment Purchase Agreement to purchase a page printer in December, 1986. The contract is for a period of thirty-six months, payable in equal monthly installments of \$234.46 for a total of \$8,440.56, including interest at a rate of 9.5%, for a

LEGISLATIVE FISCAL ANALYST

NOTES TO THE FINANCIAL SCHEDULES (CONT.)
JUNE 30, 1987 AND 1986

PURCHASE CONTRACT (CONT.)

total interest charge of \$1,063.41, and total principle of \$7,377.15. Future payments are as follows:

Fiscal Year Ending June 30,	
1988	\$2,813.52
1989	2,813.52
1990	<u>1,406.76</u>
	\$7,033.80

AGENCY RESPONSES



STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

October 6, 1987

Mr. James Wosepka
Certified Public Accountant
P.O. Box 1097
Beach, North Dakota 58621

Dear Mr. Wosepka:

I have reviewed your audit report and financial statements for fiscal years 1986 and 1987. Thank you and your staff for this report. It has been a pleasure to work with you.

Please let me know if I can be of further assistance.

Sincerely,

A handwritten signature in cursive script that reads "Judy Rippingale".

Judy Rippingale
Legislative Fiscal Analyst

